

ORDER NO. 2477

UNITED STATES OF AMERICA  
POSTAL REGULATORY COMMISSION  
WASHINGTON, DC 20268-0001

Before Commissioners:

Robert G. Taub, Acting Chairman;  
Tony Hammond, Vice Chairman;  
Mark Acton;  
Ruth Y. Goldway; and  
Nanci E. Langley

Competitive Product Prices  
Priority Mail Express, Priority Mail &  
First-Class Package Service Contract 3 (MC2014-27)  
Negotiated Service Agreement

Docket No. CP2014-53

ORDER APPROVING AMENDMENT  
TO PRIORITY MAIL EXPRESS, PRIORITY MAIL & FIRST-CLASS  
PACKAGE SERVICE NEGOTIATED SERVICE AGREEMENT

(Issued May 12, 2015)

I. INTRODUCTION

The Postal Service seeks to amend a Priority Mail Express, Priority Mail & First-Class Package Service negotiated service agreement.<sup>1</sup> For the reasons discussed below, the Commission approves the Amendment.

In Order No. 2106, the Commission approved the Priority Mail Express, Priority Mail & First-Class Package Service Contract 3 negotiated service agreement (Existing

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<sup>1</sup> Notice of United States Postal Service of Change in Prices Pursuant to Amendment to Priority Mail Express, Priority Mail & First-Class Package Service Contract 3, with Portions Filed Under Seal, May 1, 2015 (Notice). The Amendment is an attachment to the Notice (Amendment).

Agreement).<sup>2</sup> On May 1, 2015, the Postal Service filed notice that the Existing Agreement has been amended pursuant to contractual terms. On May 4, 2015, the Commission issued an order reopening this docket to consider the Amendment, appointing a Public Representative, and providing interested persons with an opportunity to comment.<sup>3</sup>

The Postal Service intends for the Amendment to become effective one business day after the date that the Commission completes its review of the Notice. Notice at 1. The Postal Service filed supporting financial documentation and a certified statement, as required by 39 C.F.R. § 3015.5. *Id.* The Postal Service asserts that the Amendment will not impair the ability of the contract to comply with 39 U.S.C. § 3633. Notice, Attachment B at 1.

## II. COMMENTS

Comments were filed by the Public Representative.<sup>4</sup> No other person submitted comments. The Public Representative reviewed the Amendment, the Existing Agreement, and the financial model filed under seal. *Id.* at 2. Based on that review, he concludes that the Existing Agreement, as amended, should continue to generate sufficient revenues to cover costs and satisfy 39 U.S.C. § 3633(a). *Id.*

## III. COMMISSION ANALYSIS

The Commission has reviewed the Notice, the accompanying materials filed under seal, and the comments filed by the Public Representative.

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<sup>2</sup> See Docket Nos. MC2014-27 and CP2014-53, Order Adding Priority Mail Express, Priority Mail & First-Class Package Service Contract 3 to the Competitive Product List, June 27, 2014. (Order No. 2106).

<sup>3</sup> Order No. 2466, Notice and Order Concerning Amendment to a Priority Mail Express, Priority Mail, & First-Class Package Service Negotiated Service Agreement, May 4, 2015.

<sup>4</sup> Public Representative Comments on Request of the United States Postal Service to Amend Priority Mail Express, Priority Mail, and First-Class Package Service Contract 3 Negotiated Service Agreement, May 11, 2015 (PR Comments).

*Cost considerations.* The Commission reviews competitive product prices to ensure that each product covers its attributable costs, does not cause market dominant products to subsidize competitive products, and contributes to the Postal Service's institutional costs. 39 U.S.C. § 3633(a); 39 C.F.R. §§ 3015.5 and 3015.7. As long as the revenue generated by the product exceeds its attributable costs, the product is unlikely to reduce the contribution of competitive products as a whole or to adversely affect the ability of competitive products as a whole to contribute an appropriate share of institutional costs. In other words, if a product covers its attributable costs, it is likely to comply with 39 U.S.C. § 3633(a).

The Existing Agreement provides the customer with expedited shipping services at discounted prices, subject to certain volume requirements.<sup>5</sup> The Amendment revises price adjustment dates.

Based on a review of the record, the Commission finds that the Existing Agreement, as amended, should cover its attributable costs. 39 U.S.C. § 3633(a)(2). For this reason, it finds that the Existing Agreement, as amended, should not result in competitive products as a whole being subsidized by market dominant products, in accordance with 39 U.S.C. § 3633(a)(1). Similarly, it finds the amended agreement is unlikely to prevent competitive products as a whole from contributing an appropriate share of institutional costs, consistent with 39 U.S.C. § 3633(a)(3). See *also* 39 C.F.R. § 3015.7(c). Accordingly, a preliminary review of the Amendment indicates it is consistent with section 3633(a). The rate adjustment provisions in Articles I-F and I-G of the Amendment should allow the amended agreement's revenues to cover costs for the duration of its term. The Commission will continue to review the cost coverage of the amended agreement in its Annual Compliance Determination to ensure that rates cover costs.

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<sup>5</sup> Docket Nos. MC2014-27 and CP2014-53, Request of the United States Postal Service to Add Priority Mail Express, Priority Mail & First-Class Package Service Contract 3 to Competitive Product List and Notice of Filing (Under Seal) of Unredacted Governors' Decision, Contract, and Supporting Data, June 13, 2014, Attachment B, Article I (Request).

*Other considerations.* The Postal Service states that the Amendment shall become effective one day after the date that the Commission completes its review. Notice at 1. The Existing Agreement, as amended, is set to expire 3 years after the initial effective date unless, among other things, either party terminates the contract with 30 days' written notice to the other party or it is renewed by mutual agreement.<sup>6</sup>

The Amendment does not alter a provision in the Existing Agreement that allows the parties to extend the amended agreement for two 90-day periods if a successor agreement is being prepared and the Commission is notified within at least seven days of the Existing Agreement expiring.<sup>7</sup> During the extension periods, prices will be adjusted pursuant to the escalation clause in Article I-G of the Amendment. The Commission finds the two potential 90-day extension periods are reasonable because: (1) prices automatically adjust in the extension period, making it likely that the Existing Agreement, as amended, will continue to cover its attributable costs; and (2) the extension(s) should assist the Postal Service's contract negotiations by providing additional flexibility.

If the Existing Agreement, as amended, is terminated prior to the scheduled expiration date, the Postal Service shall promptly notify the Commission.

In conclusion, the Commission approves the Existing Agreement, as amended.

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<sup>6</sup> Request at 5 (Article III). Should both parties agree to renew the agreement, any such renewal is required to follow the requirements of 39 U.S.C. § 3633 and the Commission's implementing regulations of 39 C.F.R. part 3015.

<sup>7</sup> *Id.* As the Commission noted in Order No. 1773, the Postal Service clarified that substantially similar language in Priority Mail Contract 60 contemplates the Postal Service filing any notices of extension with the Commission *at least one week prior to* the expiration of the contract, as opposed to the instant contract's "within at least seven (7) days of the contract's expiration date." See Docket Nos. MC2013-54 and CP2013-70, Order No. 1773, Order Adding Priority Mail Contract 60 to the Competitive Product List, July 8, 2013, at 3; see also Docket Nos. MC2013-54 and CP2013-70, Response of the United States Postal Service to Chairman's Information Request No. 1, July 1, 2013, question 2.

#### IV. ORDERING PARAGRAPHS

*It is ordered:*

1. The Commission approves the Priority Mail Express, Priority Mail, & First-Class Package Service Contract 3 negotiated service agreement, as amended.
2. The Postal Service shall notify the Commission if the Existing Agreement, as amended, terminates prior to the scheduled expiration date.

By the Commission.

Shoshana M. Grove  
Secretary